



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-5000

OFFICE OF THE ASSISTANT SECRETARY
FOR PUBLIC AND INDIAN HOUSING

Enter PHA Name
and address here

Dear Executive Director:

On March 29, 2001, the Department of Housing and Urban Development (HUD) published an interim rule in the Federal Register that implemented a new formula for the determination and distribution of operating subsidies to a Public Housing Agency (PHA). A PHA whose fiscal year begins on or after January 1, 2001, will use the new formula to calculate its operating subsidy eligibility. As required by the Quality Housing and Work Responsibility Act of 1998 (QHWRA), the new formula was developed using regulatory negotiations and a Negotiated Rulemaking (Neg-Reg) Committee, whose members reflected a broad range of interests. You may download a copy of this Federal Register from the website of the Funding and Financial Management Division (FFMD). The FFMD website address is: www.hud.gov/offices/pih/divisions/ffmd.

One of the major changes to the operating subsidy formula involves the calculation of the Allowable Expense Level (AEL), the non-utility cost component of the formula that was initially established for most PHAs in the late 1970's using cost data from a group of PHAs considered to be well managed. A small PHA of less than 500 units will now be able to compare its AEL approved for its fiscal year (FY) beginning in 2000 (January 1, April 1, July 1, or October 1, 2000) with an average operating cost for multifamily housing projects insured by the Federal Housing Administration (referred to as the FHAEL). A small PHA with fewer than 250 units would use the higher of its current AEL or 85% of its FHAEL. An AEL for a small PHA with 250-499 units would be set at the higher of its current AEL or 70% of its FHAEL. An exception to this comparison for small PHAs is that a PHA with fewer than 500 units and an AEL greater than 120% of the FHAEL will use an AEL equivalent to 120% of its FHAEL. The cost of these increases would be achieved, in part, by reducing the AEL of PHAs of 500 or more units by 1.36%, unless the PHA's current FY 2000 AEL was already at or below 85% of its FHAEL. There is also a cap on the 1.36% reduction so that a PHA of 500 or more units will not have to reduce its AEL below 85% of its FHAEL.

HUD has calculated the national FHAEL for a two-bedroom unit in FY 2000 at \$249.99 per month. The interim rule directs HUD to adjust this average national two-bedroom operating cost for local cost differences in your area and for the specific bedroom distribution of your PHA. The interim rule also requires that you be given an opportunity to determine if the bedroom adjustment factor calculated by HUD is appropriate for your PHA.

Enclosed with this letter is a worksheet showing HUD's calculation of the adjusted FHAEL for your PHA. The worksheet contains a section that allows you to independently calculate your bedroom adjustment factor. Within certain parameters, as noted in the worksheet instructions, you may be able to modify the HUD-calculated bedroom adjustment factor. The local cost adjustment factor cannot be modified.

The worksheet also presents the result of comparing your FY 2000 approved AEL with the FHAEL adjusted for your local costs and bedroom distribution and making the appropriate calculation of the AEL to be used in the determination of your FY 2001 operating subsidy eligibility. The result is referred to as the "Revised FY 2000 AEL." If you have modified the HUD-calculated bedroom adjustment factor, a worksheet section is available for you to show how the modification changes the HUD-calculated Revised FY 2000 AEL.

Please review the enclosed worksheet with the HUD-calculated FHAEL and Revised FY 2000 AEL for your PHA and complete those sections applicable to you. When you have finished, complete and return the enclosed letter stating that you are in agreement with the HUD-calculated Revised FY 2000 AEL, or that you have made a permitted modification to the HUD-calculated bedroom adjustment factor that changed the HUD-calculated Revised FY 2000 AEL. You shall return the letter by certified mail, Federal Express, or other means that will give you a record of delivery. You may not fax the letter. Return the letter to:

Johnson, Bassin & Shaw, Inc.
Attn: Mr. Zebulon X. Hall
8630 Fenton Street, 12th Floor
Silver Spring, MD 20910-3803

Your response must be returned within a week of receipt of this letter. This is a short, but necessary, timeframe if HUD is to be able to process and approve your FY 2001 operating subsidy eligibility before the end of the Federal fiscal year on September 30, 2001.

Please know that I share your concerns over the length of time it is taking to implement the interim rule since both you and HUD will benefit from the changes contained in the new operating subsidy formula. I am increasing resources to this effort and will take a personal interest in seeing that the new forms and other factors that you need to calculate your operating subsidy eligibility are made available to you as soon as possible.

If you have questions about the worksheet, please call Regina McGill, Director of the Funding and Financial Management Division (FFMD) at (202) 708-1872. Steve Sprague and Chris Stevens of her staff are also available to give you assistance. FFMD will also be posting responses to frequently asked questions (FAQS) about the FHAEL on its website address: www.hud.gov/offices/pih/divisions/ffmd.

Sincerely yours,

/s/

Paula Blunt,
Acting General Deputy Assistant Secretary
for Public and Indian Housing

Enclosures